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Report Highlights:

Imports in MY00 are estimated at 1.6 mmt, a decline of about 10% due to the imposition of a 20-25% tariff and ample beginning stocks but still relatively high. Post forecasts imports to remain high at around 1.6 mmt in MY01. Trade liberalization circa 1998 led to sizable imports which showed clearly how uncompetitive local producers/farmers are. Indonesia's sugar production continues to decline due to farmers' inability to compete with imports and more farmers shifting from planting cane to more profitable commodities such as rice and horticulture. High input costs, competition from imports, and low returns will lower MY00 sugar production to an estimated 1.5 mmt. It is forecast to decrease slightly to 1.45 mmt in MY01. The MY00 estimate for consumption is 3.1 mmt and is expected to increase to 3.2 mmt in MY01.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Jakarta [ID1], ID

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General Summary

There isn't much sweet in the Indonesian sugar cane sector. High input costs, poor management practices, inefficient government policies and a steady stream of cheaper imports are driving producers out of cane as well as sugar production.

The MY00 (May 99-April 00) cane production estimate is 21.4 mmt, down a whopping 21 percent from 27.2 mmt in MY99. Assuming no improvements in the sugar sector, the forecast for MY01 cane production is stable at 21.4 mmt. Competition with other crops (especially rice or horticulture) has reduced the area planted of cane to 390,000 ha. in MY00, down 10,000 ha. from MY99. The sizable volume of cheaper imported sugar will also drive farmers out of sugar cane production and area planted in MY01 is forecasted to decline to 380,000 ha.

In addition to re-growth cultivation, i.e., farmers harvest the cane up to the third or even fourth growths (called simply the "ratoon" system), high input prices forced farmers to reduce fertilizer and pesticide applications causing cane yields in MY00 to decline to 62.8 mt/ha, around 12.5 percent lower than the level in MY99 (71.8 mt/ha). The forecast for MY01 cane yield should hold steady at 62.9 mt/ha. Estimated cane recovery rates (the volume of sugar produced from one ton of cane) in MY00 increased to 6.9 percent from 5.5 percent in MY99 thanks to favorable weather and the forecast for MY01 is down slightly to 6.8 percent.

Improving economic conditions and sharply lower prices pushed sugar consumption to 3.1 mmt in MY00, over 10 percent higher than the level in MY99, i.e., 2.8 mmt. Post forecasts MY01 sugar consumption to increase slightly to 3.2 mmt to accommodate expansion of the food and beverage industries. Trade liberalization policy has pulled the National Logistics Agency, Bulog, from managing sugar distribution and stocks, which are now mainly in the hands of traders and sugar mills. The level of ending stocks for MY00 is estimated at 966,000 mt, around three percent lower than MY99 ending stocks of 994,000 mt. In MY01, higher consumption of consumer-ready products and lower production lead to a forecast drop in stocks to 816,000 mt.

Trade liberalization cleared the way for the market to dictate who will supply Indonesia's sugar and, to date, imports are leading. Sugar imports in MY99 went up to a total of 1.8 mmt but the estimate for MY00 is down to 1.6 mmt, or 11 percent lower than the MY99, due to ample beginning stocks. New tariffs of 20-25% were introduced in January 2000 which, along with high stocks, is expected to be reflected in stagnant imports for MY01 (1.6 mmt). Current available trade data shows that so far MY00 (May-Nov) imports have reached 1.1 mmt, consisting of 302,429 tons of refined sugar and 839,190 tons of raw sugar. Major suppliers during MY00 were Thailand (36%), Brazil (29%) and China (9%).

Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		05/1998		05/1999		05/2000
Area Planted	400	400	0	390	0	380
Area Harvested	380	378	0	341	0	340
Production	27750	27180	0	21400	0	21400
TOTAL SUPPLY	27750	27180	0	21400	0	21400
Utilization for Sugar	27954	27180	0	21400	0	21400
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	27954	27180	0	21400	0	21400

Note: Unit in 1,000 Ha. and 1,000 MT.

Data in "Old" column is FAS/Washington data.

Centrifugal Sugar

PSD Table						
Country:	Indonesia					Unit: 1,000 MT
Commodity:	Centrifugal Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		05/1998		05/1999		05/2000
Beginning Stocks	520	520	992	994	1092	966
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1490	1492	1600	1489	0	1450
TOTAL Sugar Production	1490	1492	1600	1489	0	1450
Raw Imports	1401	1401	1200	1200	0	1200
Refined Imp.(Raw Val)	387	387	400	400	0	400
TOTAL Imports	1788	1788	1600	1600	0	1600
TOTAL SUPPLY	3798	3800	4192	4083	1092	4016
Raw Exports	6	6	0	17	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	6	6	0	17	0	0
Human Dom. Consumption	2800	2800	3100	3100	0	3200
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2800	2800	3100	3100	0	3200
Ending Stocks	992	994	1092	966	0	816
TOTAL DISTRIBUTION	3798	3800	4192	4083	0	4016

Note: Data in "Old" column is FAS/Washington data.

Production

Sugar production from the field to the factory in Indonesia is struggling. In the field, major sugar producing areas are Java and Lampung (Sumatra) with market shares around 57 percent and 32 percent, respectively. State enterprises produce 63 percent of the country's sugar and private mills produce 37 percent (mostly in Lampung). Meanwhile, due to economic difficulties, the forced shifting of sugar production to the islands off of Java has had neither the positive benefits sought nor any significant effect on national sugar production whatsoever. In fact, sugar mills are facing closure. Two sugar mills

have already shut down in West Java and four mills in East Java are reportedly under the process of closing down. Three sugar mills in Southeast Sulawesi and North Lampung halted construction due to the economic crisis.

After years of relatively stable production, sugar cane production plummeted from 2.2 mmt in MY98 to 1.5 mmt in MY99. The cane sugar production estimate for MY00 is 1.5 mmt, down from the previous FAS/Jakarta estimate of 1.6 mmt due to lower cane production on lower acreage. Post forecasts cane sugar production in MY01 to decrease slightly to 1.45 mmt.

Based on the most recent official data, MY99 harvested area in Indonesia is revised down 10 percent to 378,000 ha, and estimated to decline an additional 10 percent to 341,000 ha in MY00 due to higher loss from poor crop management and more farmers switching out of cane to more profitable food crops. Post forecasts MY01 cane area planted to decline further to 380,000 ha and harvested area to 340,000 ha.

The flailing sugar industry faces consolidation because its net cost of production (fertilizer, pesticides) is high and yields are low. Farmers harvest the cane up to third even fourth growths (ratoon system) which leads to lower yields. Cane yields have declined from 71.8 mt/ha in MY99 to 62.8 mt/ha MY00. The efforts by the government to introduce new high yielding cane varieties have not been successful because they require more attention to crop management which leads to even higher production costs. As a result, most cane farmers continue to plant the lower-yielding BZ148 variety. The next strategy to increase yield and production might be the introduction of price incentives via domestic protection. If tariffs are applied at protective levels above the current 20-25 percent, driving up the price of imports and making domestic sugar more competitive, domestic producers may respond by increasing planting and employing better management practices which could cause cane yield in MY01 to increase. However, given the barriers facing the industry, such a success so soon seems unlikely and based on current conditions, FAS/Jakarta forecasts cane yield in MY01 at 62.9 mt/ha.

Against the odds, (i.e. less intensive crop management caused by the high cost of inputs) favorable weather conditions produced higher sugar content and led the estimated sugar rendemen to reach 7.0 percent MY00, higher than 5.5 percent in MY99. Post forecasts sugar rendemen to decrease slightly to 6.8 mmt in MY01. Although milling facilities are poor, the improvement in cane quality (sugar rendemen or extraction rate) facilitated higher sugar yields which are estimated to reach 4.4 mt/ha in MY00, higher than 3.9 mt/ha in MY99. Post forecasts sugar yields to decline to 4.3 mt/ha in MY01 as many state sugar mills (they are old and have small milling capacity) feel the pinch of lower profits by reducing investment in already poor facilities. This dilemma will continue to hamper Indonesian sugar mills beyond MY01.

Consumption

With sugar prices low and the food industry rebounding, total consumption during MY00 is estimated to increase to 3.1 mmt, over 10 percent higher than 2.8 mmt in MY99. Post forecasts MY01 total consumption to increase by around 3 percent to 3.2 mmt, as the food industry continued to expand. The current tariff of 20-25 percent is not pulling consumption down, but is slowing growth. However, if a higher import tariff is imposed to protect domestic cane producers, the expansion of the food industry sector may not be as robust.

The Indonesian Food and Beverage Producers Association (GAPMMI - Gabungan Pengusaha Makanan dan Minuman Indonesia) estimates their members require around 728,000 mt of sugar per year. They rely on imports to round out their supply and the Association estimates the 20-25 percent tariff will cause up to a 10 percent increase in the price of some consumer products.

Prices

The Government of Indonesia (GOI) policies aimed at supporting producers are running at odds with the GOI's overall efforts to open its market. Domestic sugar prices haven't been able to match imported prices, currently about Rp. 155/kg (US \$15/mt) below domestic sugar. Beginning in April 1998, preceding trade liberalization in September 1998 which removed Bulog's (Badan Urusan Logistik - the National Logistics Agency) monopoly and opened Indonesian market to private imports, sugar prices started to creep up. Prices reached a peak in September 1998 of Rp. 3,977/kg (average monthly retail prices in Jakarta market) or US\$ 351/mt at the then-current exchange rate, making it impossible to compete with cheaper imported sugar.

In order to control prices and protect cane farmers, the GOI limited imports to sugar producers on Java (mostly state enterprises). This policy put enough downward pressure on sugar prices to lower them to Rp. 2,333/kg (US\$ 334/mt) in July 1999 but it was short-lived. So the government announced tariffs on sugar of 20 percent for raw sugar and 25 percent for refined sugar effective January 1, 2000. Both domestic and world sugar prices declined during January-March 2000 period from Rp. 2,755 - 2,248/kg (local) or US\$ 361 - 295/mt and Rp. 2,708 - 2,440/kg (import) or US\$ 355 - 320/mt. This put additional pressure on imports. Currently, retail prices in the traditional markets in Jakarta are Rp. 2,600 - 2,670/kg (for SHS I quality) equal to US\$ 341 - 350/mt compared to the retail prices of imported sugar around Rp. 2,500 - 2,540/kg or US\$ 328/mt to US\$ 333/mt at current exchange rates.

Stocks

Ending stock levels increased dramatically in MY99 from 520,000 mt to 994,000 mt due to large imports and low consumer purchasing power. With high carry-in stocks for MY00 and continued high imports, total supply in MY00 is expected to climb to roughly 4.1 mmt. Even with consumption expanding by a solid 300,000 mt the market cannot absorb the volume of sugar available and ending stocks this marketing year are estimated to remain high at 966,000 mt. While carryover stocks and imports continue to be high in MY01, production has declined and consumption – especially by the food and beverage industries – has picked up, leading FAS/Jakarta to forecast lower ending stocks of 816,000 mt.

Policy

With the demise in 1998 of the National Logistics Agency (Bulog) as the single-desk importer of sugar, the sugar industry is under major restructuring. Private imports have taken off, revealing an inherently weak sugar production and milling sector and leading to strong calls for protection from producers and millers. The GOI responded in December 1999 with 20 and 25 percent tariffs (see report ID0002) on raw and refined sugar, respectively, on top of the 10 percent value-added tax already in place. But these were not enough to squash imports. As a result, allegations of dumping have been heard and cane farmers have proposed an increase in the import duty to 80 percent. The Minister of Forestry and Plantation has stated that an increase in the sugar import duty to 70 percent is being discussed and the government is planning to propose this policy to the International Monetary Fund (IMF). However, to be consistent with the IMF Letter of Intent, the Minister of Industry and Trade refuses to change the current tariff duty on imported sugar and says that the government will review the tariff on imported sugar in August 2000.

A subsidized marketing system is still in operation whereby sugar mills pay cane farmers based on the cane volume they bring in and on the extraction rates produced by their cane at the set floor price, i.e., Rp. 2,500/kg (US\$ 328/mt at current exchange rate). When the mills sell their sugar -- which is effectively priced out of the market because of the high price paid to producers -- they receive a subsidy from the GOI. Even with GOI support, however, domestic sugar is not competitive with imported sugar. For comparison, current retail domestic sugar prices (quoted April 10, 2000 in Jakarta market) are Rp. 2,613/kg or US\$ 343/mt at the current exchange rate (local) vs. Rp. 2,540/kg or US\$ 333/mt (import).

In addition to the proposed tariff hike to protect the domestic industry, the GOI is also considering increasing the sugar floor price in order to support farm income. The proposed floor prices ranging from Rp. 2,600/kg to Rp. 3,000/kg equivalent to US\$ 341/mt to US\$ 394/mt. Rather than helping the domestic industry, this would actually make domestic sugar even less competitive and perhaps create the need for an even higher tariff.

Trade

Export Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Nov		May-Nov
Exports for	1999		1999
U.S.	0	U.S.	0
Others		Others	
Japan	10	Japan	10
Korea	7	Korea	7
Total for Others	17	Total for Others	17
Others not listed	0	Others not listed	0
Grand Total	17	Grand Total	17

Import Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Nov		May-Nov
Imports for	1999		1999
U.S.	2	U.S.	2
Others		Others	
Thailand	726	Thailand	409
Brazil	536	Brazil	334
Pakistan	245	China	106
China	126	United Kingdom	50
United Kingdom	71	Pakistan	48
Australia	45	Australia	35
Malaysia	34	Malaysia	15
Korea	29	Korea	10
Singapore	26	Singapore	10
United Kingdom	16	Germany	4
Total for Others	1854	Total for Others	1021
Others not listed	202	Others not listed	118
Grand Total	2058	Grand Total	1141

After trade liberalization, sugar imports jumped from 921,000 mt in MY98 to 1.8 mmt in MY99 and show no signs of reversal. In MY99, around 1.4 mmt of the total imported sugar was raw sugar and 0.4 mmt refined sugar. Thailand was the main supplier, shipping around 672,000 mt (38% of total import market) followed by Brazil 273,000 mt (15%) and Pakistan 207,000 mt (12%). The MY00 estimate for total sugar imports is somewhat lower at 1.6 mmt due to higher stock levels. The total consists of 1.2 mmt of raw sugar and 0.4 mmt refined sugar. The most current official trade data shows that imports during January-November 1999 have reached 2.1 mmt including 1.4 mmt raw sugar. Major suppliers are Thailand (35%), Brazil (26%) and Pakistan (12%). The MY01 forecast has imports stable at 1.6 mmt, assuming no new tariffs are implemented.

Tables

Cane Sugar Production by Month

Unit: 1,000 Metric Ton

Month	Production	Month	Production	Month	Production
1998 1/		1999 2/		2000 3/	
Jan	5.0	Jan	1.2	Jan	2.4
Feb	11.2	Feb	10.1	Feb	12.9
Mar	15.1	Mar	18.4	Mar	17.1
Apr	13.5	Apr	58.3	Apr	37.4
May	17.3	May	186.9	May	140.2
Jun	505.6	Jun	346.0	Jun	416.2
Jul	378.7	Jul	345.7	Jul	346.6
Aug	511.7	Aug	542.6	Aug	530.8
Sep	187.4	Sep	256.9	Sep	296.6
Oct	186.4	Oct	256.9	Oct	254.0
Nov	87.6	Nov	96.4	Nov	95.3
Dec	12.3	Dec	20.7	Dec	19.8
Total	1,931.8	Total	2,140.1	Total	2,169.3
Source: Economic Indicator, Central Bureau of Statistic, Indonesia, (Apr. & Sep. 1999).					
Note: 1/ Revised Data 2/ Preliminary Data 3/ Estimate Data					

Sugar Prices -- Wholesale and Retail

Average Monthly Sugar Wholesale Prices 1/ (Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	1300	1350	1350	1350	1350	1350	1380	1360	1360	1360	1360	1360
1997	1360	1360	1360	1360	1360	1368	1390	1390	1390	1390	1390	1390
1998	1625	1722	1720	1950	2100	2100	2100	3500	3838	3463	3463	3400
1999	3200	2700	2700	2700	2600	2480	2080	2080	2250	2250	2206	2300
% Change	97	57	57	38	24	18	(1)	(41)	(41)	(35)	(36)	(32)

Source: Central Bureau of Statistics (CBS).

1/ Prices apply to Sugar SHS I in Jakarta market. Pct refers to year-to-year percent change.

Average Monthly Sugar Retail Prices 1/
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	1478	1478	1450	1489	1500	1500	1500	1500	1500	1500	1500	1500
1997	1516	1545	1545	1545	1595	1595	1594	1594	1594	1599	1600	1600
1998	1953	2028	1751	2226	2439	2492	2841	3848	3977	3734	3550	3511
1999*)	3505	3445	3175	2963	2670	2514	2333	2350	2508	2485	2521	2819
2000*)	2755	2627	2248									
% Change	(21)	(24)	(29)									

Source: Central Bureau of Statistics (CBS).

1/ Prices apply to Local Sugar SHS I in traditional Jakarta market. Pct refers to year-to-year percent change.

*) Source: Center for Market Information (PIP), Ministry of Industry and Trade.

Average Monthly Imported Sugar Retail Prices 1/
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3519	3477	3140	2815	2551	2433	2243	2285	2448	2443	2483	2768
2000	2708	2598	2440									
% Change	(23)	(25)	(22)									

Source: Center for Market Information (PIP), Ministry of Industry and Trade.

1/ Prices apply to Imported Sugar in traditional Jakarta market. Pct refers to year-to-year percent change.

Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6900	7245	7100
2000	7425	7380	7590	7622								
Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.												
Note: - April 2000 exchange rate is quoted for April 11, 2000.												
- BPS data available up to September 1999.												

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